United States General Accounting Office

# GAO

Report to the Chairman, Subcommittee on Military Readiness, Committee on National Security, House of Representatives

September 1998

# DOD INFORMATION SERVICES

## Improved Pricing and Financial Management Practices Needed for Business Area



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GAO

**United States**
**General Accounting Office**
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**Accounting and Information Management Division**

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September 15, 1998

The Honorable Herbert H. Bateman
Chairman, Subcommittee on Military Readiness
Committee on National Security
House of Representatives

Dear Mr. Chairman:

This report, one in a series[1] you requested on the financial operations of the Department of Defense's (DOD) working capital funds (WCF), addresses the Defense Information Services business area. The business area provides a wide range of information technology products and services to DOD and other federal agencies, including telecommunications services, mainframe data processing, and database management. It operates under the working capital concept, in which customers are to be charged the full costs of services provided, and is managed by the Defense Information Systems Agency (DISA). For fiscal year 1998, DOD estimated that the business area will have reported revenue of about $2.7 billion.

As you requested, this report discusses (1) DISA's price-setting process, (2) DISA's reimbursement for services provided, and (3) the accuracy of DISA's financial management information.

We are sending copies of this report to the Ranking Minority Member of your Subcommittee; the Chairmen and Ranking Minority Members of the Senate Committee on Armed Services; the House Committee on National Security; the Senate Committee on Appropriations, Subcommittee on Defense; the House Committee on Appropriations, Subcommittee on National Security; the Senate and House Committees on the Budget; the Senate Committee on Governmental Affairs and House Committee on Government Reform and Oversight; the Secretary of Defense; the Director of the Defense Information Systems Agency; and the Director of the Defense Finance and Accounting Service. Copies will also be made available to others upon request.

[1]Navy Ordnance: Analysis of Business Area Price Increases and Financial Losses (GAO/AIMD/NSIAD-97-74, March 14, 1997); Navy Ordnance: Analysis of Business Area Efforts to Streamline Operations and Reduce Costs (GAO/AIMD/NSIAD-98-24, October 15, 1997); and Air Force Supply Management: Analysis of Activity Group's Financial Reports, Prices, and Cash Management (GAO/AIMD/NSIAD-98-118, June 8, 1998).

Please contact me at (202) 512-6240 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix III.

Sincerely yours,

Jack L. Brock, Jr.
Director, Governmentwide and Defense
Information Systems

# Executive Summary

## Purpose

Over the past several years, GAO reports and testimonies have identified management problems with the Defense Working Capital Funds (WCF) and have been used by the Congress in exercising its oversight responsibility. In view of the Defense Information Services business area's importance to Department of Defense (DOD) operations, the Chairman, Subcommittee on Military Readiness, House Committee on National Security requested that GAO (1) evaluate the Defense Information Systems Agency (DISA) price-setting process, (2) ascertain if DISA is being reimbursed for the services provided, and (3) ascertain the accuracy of DISA's financial management information.

## Background

The Defense Information Services business area consists of two components—the Defense megacenters (DMC) and the Communications Information Services Activity (CISA). The business area provides DOD and other organizations a wide range of information services, such as data processing, telecommunications services, and database management, which are comparable to services found in the commercial sector. Data processing-related services are provided by the 16 DMCs, which are located throughout the United States. Telecommunications services are provided through CISA by numerous offices located worldwide. For fiscal year 1998, DOD estimates that these two components will have a combined reported revenue of about $2.7 billion. As part of DOD's ongoing efforts to reduce infrastructure cost, DISA has efforts underway to reduce the number of megacenters. Over the next 2 years, DISA plans to complete the consolidation of its mainframe processing centers into six locations. DOD estimates that the planned consolidation will result in savings over a 10-year period (fiscal years 1998 through 2007) of approximately $1.5 billion.

For financing purposes, the business area is part of the WCF, a revolving fund that relies on sales revenue to finance operations, much as sales revenues are used in commercial enterprises. Defense working capital funds are supposed to recover the full costs of services performed and supplies acquired or used through the prices charged to their customers.

The business area generates revenue by billing customers at predetermined prices as it performs agreed-upon work for those customers. The business area prices are based on the estimated costs of providing services at a projected level of work. In setting prices, it is extremely important that the business area accurately estimate the work it will perform and the cost of performing the work. However, this task is

difficult because the process that business areas use to develop prices is tied to the budget process, which begins up to 2 years before the prices go into effect.

Customers primarily use operations and maintenance appropriations to pay for the requested services. Payments are then used to finance subsequent operations. The business area is expected to operate within the revenue it generates. Conceptually, this provides an incentive to control costs and maximize efficiency. It is critical that the working capital funds operate efficiently since every dollar spent inefficiently results in fewer resources available for other defense spending priorities, such as military readiness.

## Results in Brief

DISA has difficulty (1) setting prices for information technology services that result in the recovery of the full cost of doing business, (2) getting reimbursed for the services it provides and (3) producing reliable financial information on the Defense Information Services business area. These weaknesses impair the business area's ability to focus management attention on the full costs of carrying out operations and managing those costs effectively.

DISA is embarking upon a major effort to consolidate its DMCs and increase their efficiency by allowing them to specialize in mainframe processing and thereby lower their prices. By consolidating the mainframe processing from the current 16 DMC sites to 6 and optimizing mainframe operations, DISA anticipates that planned savings will be passed on to its customers through reduced prices. The initiative is in concert with DOD's overall efforts to reduce its infrastructure.

However, the reported cost of doing business varies considerably from computer center to computer center. For example, the reported hourly cost at the Columbus DMC is about 61 percent higher than that of the St. Louis DMC. An analysis of the cost differences would provide management the opportunity to understand the causes of the differences and thereby help identify inefficiencies and make improvements in the services provided.

In addition, the DMCs have difficultly accurately estimating future workload. In fiscal year 1997, DOD's records showed that the estimated versus actual workload varied from 15 percent to 174 percent for individual centers. Because the DMCs underestimated the amount of work

they would perform in fiscal year 1997 for IBM and UNISYS mainframe services, they reported a net profit of $90 million—which is 13 percent of the reported fiscal year 1997 revenue of approximately $682 million. Accurate workload projections are essential to the business area in developing prices that enable it to recover operating costs from its customers.

In setting prices for telecommunications services, CISA did not incorporate about $137 million of costs related to (1) transitioning independent networks to DISA's new common-user network, (2) prior-year losses, and (3) overhead expenses. Because these costs were not included, the prices charged for services were not based on the full costs incurred. Further, at least $231 million of DISA's appropriations supported business area activities even though DOD working capital fund business areas are supposed to recover the full cost of operations through the prices charged customers. Since the Defense Information Systems business area costs were offset by appropriations, its prices were further understated.

Further, DISA has not been promptly reimbursed for its services. As of January 1998, DISA reports showed that 31 percent of the business area's receivables, or about $173 million, had been outstanding for more than 60 days. The timely collection of amounts owed is important to the financial stability of the business area. Finally, weaknesses within DISA's internal control and accounting systems have hindered the development of accurate financial reports. Meaningful and reliable financial reports are essential to allow DISA to monitor the financial results of operations and set realistic prices to charge customers. These weaknesses affect the reliability of reported costs and revenue information for the business area.

# Principal Findings

## DMC Costs and Workload Warrant Continued Review

One of the basic goals of DOD working capital funds is to break even over time. To do so, funds should (1) set prices that accurately reflect a specific activity's cost of doing business and (2) accurately estimate future workload. If prices represent an individual activity's cost of doing business, the business area can identify areas contributing to inefficient operations and use these data to enhance performance. If prices are based on accurate workload estimates, they can help the business area ensure that it does not incur excessive profits or losses.

DISA anticipates that its major initiative to consolidate its DMCs will enable it to be more efficient and lower its prices. In planning for the DMC consolidation, DISA identified the overall cost of operations for the DMCs. The cost data were one factor used to decide which DMCs would continue to provide IBM and UNISYS mainframe services to DISA's customers. However, the reported cost of doing business varied considerably from DMC to DMC. For example, during fiscal year 1998, the Denver DMC reported a cost of about $68 an hour to provide UNISYS mainframe computer processing services, while the reported cost at the San Antonio DMC was about $11 an hour to provide the same service. DISA stated that it had not undertaken a study of the cost difference between DMCs providing the same or similar services. Taking the time now to analyze these differences would give DISA management the opportunity to make fundamental improvements in how the DMCs conduct business as DISA proceeds with the DMC consolidation.

GAO also found that the DMCs have not been able to develop accurate estimates of their workload. In fiscal year 1997, DISA's workload execution reports for the 15 DMCs providing IBM mainframe services showed that 7 overestimated their workload while 8 underestimated their workload. At 1 DMC, the reported usage was about 74 percent more than the projected usage. In addition, the reported level of services at 5 of the 8 DMCs providing UNISYS mainframe services were only 57 percent to 70 percent of their projected amounts used to develop prices. Reasonably accurate workload estimates are key to developing realistic prices.

## Telecommunications Prices Do Not Reflect the Full Cost of Operations

GAO found that DISA did not include in its prices approximately $77 million related to transitioning independent networks to the Defense Information Systems Network (DISN). Although DISA offset DISN transition costs with anticipated collections or gains from a vendor, its approach was not consistent with DOD's Financial Management Regulation. Realized gains are generally to be reflected in offsetting adjustments to prices established in subsequent fiscal years rather than offsetting anticipated gains against current year prices. DISA also excluded approximately $60 million in costs related to a prior-year loss and overhead from its fiscal year 1998 telecommunications prices.

DOD policy requires that the price charged the customer should include all direct and indirect costs of doing business. Excluding applicable costs from the prices could result in the business area failing to break even, resulting in higher prices in future years. Additionally, working capital

funds are supposed to recover their cost of operation through billings to customers and, therefore, generally do not receive appropriated funds to finance day-to-day operations. However, at least $231 million of fiscal year 1998 appropriated funds are being used to support WCF operations, which does not conform with the DOD WCF concept.

## Reimbursement for Services Provided Has Been Slow and Incomplete

As of January 1998, a reported 31 percent of the business area's accounts receivable, or about $173 million, had been outstanding more than 60 days. Since reimbursement for work performed is the principal means through which the WCF receives funding, delays in reimbursement could impact the WCF's financial stability. The lack of timely reimbursement is further compounded by DISA's failure to bill customers for $115 million in services provided in fiscal years 1996 and 1997. Part of the problem can be attributed to DISA being directed to bill customers only up to the budgeted amount. For example, in fiscal year 1996, DISA billed approximately $101.6 million for services provided to the Defense Logistics Agency (DLA), but the Office of the Secretary of Defense directed that DLA reimburse DISA only $76 million—the amount DLA had budgeted. As a result, DISA was not reimbursed for $25.6 million in incurred cost.

## Effective Management Requires Accurate Financial Data

DISA, DOD, and the Congress have not received accurate information on the financial operations of the Defense Information Services business area. This problem is not unique to the Defense Information Services business area but rather symptomatic of the long-standing problems DOD has encountered in preparing accurate financial reports on the working capital funds. GAO has reported on numerous occasions that the financial reports on those funds were inaccurate and could not be used by management to effectively monitor the operations. DOD has acknowledged that problems exist and has cited actions that were being taken to resolve them. However, GAO found that these actions were not always effective and, as a result, the reporting problems continued to exist. Further, DFAS' fiscal year 1997 Chief Financial Officers Act status report identified weaknesses with the Industrial Fund Accounting System—which is used by the DMCs. The report notes that the system cannot provide financial data that are complete, reliable, consistent, timely, and responsive to the needs of agency management. In addition, the Department of Defense Inspector General (DOD IG) was unable to express an opinion on DISA's fiscal year 1997 financial statements.

## Recommendations

GAO is recommending that the Director of the Defense Information Systems Agency and the Under Secretary of Defense (Comptroller) improve the operations, price-setting, and financial management practices of the Defense Information Services business area by (1) setting prices that include all costs incurred by the DMCs and CISA, (2) promptly collecting amounts owed, and (3) recording amounts owed in accordance with applicable accounting standards.

## Agency Comments and Our Evaluation

The Office of the Secretary of Defense provided written comments on a draft of this report. DOD acknowledged that DISA was experiencing difficulty in being reimbursed for all services provided. DOD also agreed that the amounts owed to DISA were not always recorded in accordance with applicable accounting standards. Accordingly, DOD agreed with the recommendations made to the Under Secretary of Defense (Comptroller) related to collecting and improving the quality of accounting data for amounts owed.

However, DOD disagreed with the findings, conclusions, and recommendations made to the Director of DISA that are aimed at improving the price setting practices of the business area. DOD stated that GAO's report misstates, misinterprets, and misrepresents much of what DISA has done to control the cost of operations and manage funds. DOD further stated that the report does not adequately acknowledge past and current actions DISA has taken to address the conditions reported by GAO. GAO disagrees. The report was based on analyses of DISA costs, workload data, pricing documentation, and accounting and budgetary information. These data were provided by and discussed with responsible DISA management officials and other DOD offices throughout GAO's audit. For example, GAO's analyses of the information related to the (1) $11 million in overhead, (2) $49 million loss, and (3) $77 million in DISN transition costs were corroborated by DISA and Defense officials as not being included in telecommunication prices. Further, the report identifies the progress DISA has made in consolidating 194 processing centers into the current 16 centers. The report also discusses DISA's efforts to further consolidate its DMCs and develop more accurate workload estimates.

DOD also disagreed with GAO's recommendation to provide the Congress more detailed information on the use of appropriated funds supporting WCF activities. This information will enable the Congress to decide whether to continue funding DISA services, where applicable, through both appropriations and the WCF. In this regard, House Report 105-532, dated

May 12, 1998, on the National Defense Authorization Act for Fiscal Year 1999, directs the Secretary of Defense, beginning with the fiscal year 2000 budget request, to more appropriately reflect and justify the DISA non-WCF budget request. Satisfying the language in the House Report will meet the intent of GAO's recommendation.

DOD's specific comments and GAO's evaluation of the comments are discussed in detail at the end of chapters 2 through 5.

# Contents

## Appendixes



## Tables

## Abbreviations

| | |
|---|---|
| ATM | Asychronous Transfer Mode |
| AUTODIN | Automatic Digital Network |
| CISA | Communications Information Services Activity |
| CPU | central processing unit |
| DBOF | Defense Business Operations Fund |
| DCTF | DISA Continuity of Operations and Test Facility |
| DFAS | Defense Finance and Accounting Service |
| DII | Defense Information Infrastructure |
| DISA | Defense Information Systems Agency |
| DISN | Defense Information System Network |
| DLA | Defense Logistics Agency |
| DMC | Defense megacenter |
| DMS | Defense Message System |
| DOD | Department of Defense |
| DOD IG | Department of Defense Inspector General |
| DPAS | Defense Property Accountability System |
| DSCS | Defense Satellite Communications System |
| FAA | Federal Aviation Administration |
| FASAB | Federal Accounting Standards Advisory Board |
| FMFIA | Federal Managers' Financial Integrity Act |
| GAO | General Accounting Office |
| JIEO | Joint Interoperability Engineering Organization |
| IFAS | Industrial Fund Accounting System |
| IT | information technology |
| MICS | MVS Information Control System |
| O&M | Operations and Maintenance |
| SUPS | standard units of processing |
| WCF | working capital fund |

Chapter 1

# Introduction

The Defense Information Systems Agency (DISA) is responsible for managing the Defense Information Services business area. This business area provides a wide range of services relating to computer center operations and voice, data, and video telecommunications. For fiscal year 1998, DISA estimated that the business area will have revenues of about $2.7 billion. Business area operations are financed as part of the Defense-wide Working Capital Fund, which was formerly called the Defense Business Operations Fund (DBOF). In December 1996, the Under Secretary of Defense (Comptroller) dissolved DBOF and created four working capital funds[1] (WCF) to clearly establish the military services' and DOD components' responsibilities for managing the functional and financial aspects of their respective business areas. As currently specified in the Department of Defense's (DOD) Financial Management Regulation, Volume 11B, Reimbursable Operations, Policy and Procedures-Defense Business Operations Fund, the funds are to charge customers the full costs of providing goods and services.

The primary goal of the working capital fund is to focus management's attention on the full costs of carrying out certain critical DOD business operations and the management of those costs. Unlike a private sector enterprise, which has a profit motive, the working capital funds are to operate on a break-even basis over time by recovering the full costs incurred in conducting business operations. Accomplishing this requires DOD managers to become more conscious of operating costs and to make fundamental improvements in how DOD conducts business. It is critical for the working capital funds to operate efficiently since every dollar spent inefficiently results in fewer resources available for other defense spending priorities.

## Background

The Defense Information Services business area consists of two components—the Defense megacenters (DMC) and the Communications Information Services Activity (CISA). The DMCs' primary mission is to provide computer processing services to DOD and other federal government agencies. The primary mission of CISA is to provide telecommunications services to DOD and non-Defense customers. These two entities differ markedly in mission, as highlighted in the following sections.

[1]The four are the Army, Navy, Air Force, and Defense-wide Working Capital Funds.

## Defense Megacenters

Mainframe processing comprises the core of the DMC services. DISA refers to them collectively as A-Goal services, and they include data processing on IBM and UNISYS mainframe computers, data transfers between computers, and data storage. DMCs provide a variety of other services to their customers, referred to collectively as C-Goal services, which include mainframe processing on computers made by other manufacturers (such as Burroughs), telecommunications, and database management.

Table 1.1 summarizes the DMCs' reported revenues, cost of operations, and the net operating results for fiscal years 1995 through 1997.

**Table 1.1: DMCs' Reported Results of Operations for Fiscal Years 1995 Through 1997**

Dollars in thousands

| | Fiscal year | | | |
|---|---|---|---|---|
| | 1995 | 1996 | 1997 | Total |
| Revenues | $681,212 | $693,596 | $681,914 | **$2,056,722** |
| Cost of operations[a] | 713,221 | 646,204 | 645,439 | **$2,004,864** |
| Net operating results[b] | ($32,009) | $47,392 | $36,475 | **$51,858** |

[a]The cost of operations represents the cost incurred by the DMCs in providing services to their customers.

[b]The net operating results represent the difference between the revenue and the cost of operations for that particular fiscal year.

Source: DISA's financial statements for fiscal years 1995 through 1997. GAO did not independently verify the information. The DOD IG was unable to render an opinion on DISA's financial statements for fiscal year 1997 when performing the audit required by the Chief Financial Officers Act.

Currently, there are 16 megacenters located throughout the Unites States.[2] DISA has designated DISA Western Hemisphere as the responsible entity for managing the DMCs. As part of DOD's ongoing efforts to reduce infrastructure cost, DISA has efforts underway to further reduce the number of megacenters. Over the next 2 years DISA plans to complete the consolidation of its mainframe processing centers from 16 to 6[3] and at the

[2]The 16 Defense megacenters are located in Chambersburg, Pennsylvania; Columbus, Ohio; Dayton, Ohio; Denver, Colorado; Huntsville, Alabama; Jacksonville, Florida; Mechanicsburg, Pennsylvania; Montgomery, Alabama; Ogden, Utah; Oklahoma City, Oklahoma; Rock Island, Illinois; Sacramento, California; San Antonio, Texas; San Diego, California; St. Louis, Missouri; and Warner Robins, Georgia. The Sacramento DMC is scheduled to close as a result of the Base Realignment and Closure Commission of 1995.

[3]The six remaining centers will be located in Columbus, Ohio; Mechanicsburg, Pennsylvania; Ogden, Utah; Oklahoma City, Oklahoma; San Antonio, Texas; and St. Louis, Missouri.

same time introduce Regional Information Services.[4] This is a continuation of DOD efforts to consolidate its computer center operations. Between fiscal years 1990 and 1996, DOD consolidated workload and equipment from 194 computer centers to 16 DISA DMCs.

While the remaining DMCs will provide mainframe processing services, the Regional Information Services will concentrate on nonmainframe services, such as local area network support and personal computer operations and maintenance. According to DISA's Defense Megacenter Business Strategy, dated October 1997, DOD estimates that the planned consolidation will result in savings over a 10-year period (fiscal years 1998 through 2007) of approximately $1.5 billion. Of the $1.5 billion, approximately $1 billion will accrue after fiscal year 2002.

## Communication Information Service Activity

CISA is responsible for acquiring services that connect base-level and deployed telecommunications networks within and between the continental United States, Europe, Pacific, and the Caribbean. These services are provided within the United States primarily through leased telecommunications lines and overseas by a mixture of government-owned and leased lines. Table 1.2 provides information on CISA's reported revenues, cost of operations, and net operating results for fiscal years 1995 through 1997.

**Table 1.2: CISA's Reported Results of Operations for Fiscal Years 1995 Through 1997**

Dollars in thousands

| | Fiscal year | | | |
|---|---|---|---|---|
| | 1995 | 1996 | 1997 | Total |
| Revenues | $1,805,093 | $2,102,346 | $1,996,114 | **$5,903,553** |
| Cost of operations | 1,820,181 | 2,150,534 | 2,014,644 | **$5,985,359** |
| Net operating results | ($15,088) | ($48,188) | ($18,530) | **($81,806)** |

Source: DISA's financial statements for fiscal years 1995 through 1997. GAO did not independently verify the information. The DOD IG was unable to render an opinion on DISA's financial statements for fiscal year 1997 when performing the audit required by the Chief Financial Officers Act.

CISA can provide its customers—DOD and other federal entities, such as the Federal Aviation Administration—all forms of secure and nonsecure voice, data, video, and bulk transmission telecommunications. If CISA is unable to provide the requested services directly, it will contract, on behalf of the

[4]Regional Information Services will be located at the 15 locations remaining after the closure of the Sacramento DMC.

requesting activity, with the commercial sector or another federal entity to provide the services. For example, some voice services are provided by the General Services Administration under its FTS-2000 contract for services not available through CISA.

## Objectives, Scope, and Methodology

The objectives of our review were to (1) evaluate DISA's processes for establishing the prices DMCs and CISA charge for the services provided to customers of the Defense Information Services business area, (2) ascertain if DISA is being reimbursed for all services provided, and (3) ascertain the accuracy of DISA's financial management information.

To evaluate the price-setting process for the DMCs and CISA, we reviewed the policies and procedures DOD established for setting prices. We identified the cost elements included in the prices and determined whether these elements are in conformance with the guidance set forth in DOD's Financial Management Regulation, Volume 11B, Reimbursable Operations, Policy and Procedures-Defense Business Operations Fund. We also collected and analyzed workload data obtained from DISA-WESTHEM. We discussed the reliability of this data on DMC operations with DISA-WESTHEM and determined the difference between the projected and actual workload for IBM and UNISYS mainframe services for fiscal year 1997. In addition, we obtained and reviewed a study performed by a private contractor related to CISA's pricing of services.

To determine if the information service business area is being reimbursed for all services provided, we collected, reviewed, and analyzed selected financial information related to collections, disbursements, and accounts receivable. We determined whether DISA pursued collection of accounts receivable in accordance with the guidance set forth in DOD's Financial Management Regulation. We also contacted DISA customers to discuss amounts they owed DISA for services provided. In addition, through our discussion with DISA personnel, review of the financial reports, and review of relevant federal accounting standards,[5] we determined whether amounts owed DISA were being properly recorded.

[5]In October 1990, the Federal Accounting Standards Advisory Board (FASAB) was established by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States to consider and recommend accounting standards to address the financial and budgetary information needs of the Congress, executive agencies, and other uses of federal financial information. Once FASAB recommends accounting standards, the Secretary of the Treasury, the Director of OMB, and the Comptroller General decide whether to adopt the recommended standards. The Standards that are adopted are published as Statements of Federal Financial Accounting Standards by OMB and GAO.

To evaluate the accuracy of DISA's financial management information we (1) obtained and analyzed the Defense Working Capital Fund Accounting Reports and (2) DISA's Chief Financial Officer Annual Financial Statement for FY 1996. We also reviewed the DOD IG's audit report on the business area financial statements for fiscal year 1997, to identify any problems they found with the business area's financial information. We also reviewed DOD's fiscal year 1997 Federal Managers' Financial Integrity Act (FMFIA) report and the Defense Finance and Accounting Service (DFAS) Chief Financial Officer's Financial Management Status Report and Five Year Plan 1997-2001 to identify any accounting and reporting weaknesses related to DISA.

The quantitative financial information used in this report was produced by DOD's systems, which have long been reported to generate unreliable data. We did not independently verify the data. The DOD IG was unable to render an opinion on DISA's financial statements for fiscal year 1997.

We performed our work at the Office of the Under Secretary of Defense (Comptroller), Washington, D.C.; DISA Headquarters, Arlington, Virginia; DFAS Headquarters, Crystal City, Virginia; DISA-WESTHEM, Denver, Colorado; Defense Logistics Agency, Ft. Belvior, Virginia; Federal Aviation Administration, Washington, D.C.; and the Department of State, Washington, D.C.. Our work was performed from August 1997 through August 1998, in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Secretary of Defense. The Office of the Secretary of Defense provided written comments on a draft of this report that are discussed in chapters 2, 3, 4, and 5 and are reprinted in appendix I. DOD also provided technical comments on the draft report, which we have incorporated where appropriate, but have not included.

Chapter 2 of this report discusses pricing issues related to the Defense megacenters. Chapter 3 discusses issues primarily related to pricing telecommunications services offered by CISA. Chapter 4 discusses DISA's ability to be reimbursed in a timely manner for services provided and the nonreimbursement for services provided to customers. Chapter 5 discusses the accuracy and reliability of DISA's financial management information.

# DMCs' Costs and Workload Warrant Continued Review

One of the goals of the working capital fund is to break even over time. To achieve this, prices are supposed to include all direct and indirect costs incurred in providing services to the customers. To ensure that customers have sufficient funds to pay for the requested services, prices are to be established before the start of the fiscal year and remain in effect for the entire year. In order to set prices that will enable the business area to operate on a break-even basis, it is extremely important that the business area accurately estimate the work it will perform and the cost of performing that work. This task is made more difficult because the process that business areas use to develop prices begins up to 2 years before the prices go into effect.

In developing prices for mainframe processing services, each DMC collects cost data on direct labor, depreciation, contracts, software, and the indirect cost incurred by the DMC and headquarters (such as base support costs and centralized contract administration) to arrive at the activity's estimated cost of doing business. The workload data are derived through discussions with customers and utilization data collected by DISA. Once the cost and workload data are accumulated, the individual DMC price is determined by allocating the estimated total cost over the estimated workload to arrive at a cost per hour. Currently the DMCs use a uniform price structure which results in all customers being charged the same price regardless of where the work is performed. Our review disclosed that the cost of doing business varied considerably from DMC to DMC. As DISA proceeds with its consolidation effort, analyzing the cost differences between the DMCs should enable managers to seek ways to become more efficient and effective, thereby reducing the cost of operations and lowering prices charged to the customers.

We also found that the DMCs had difficulty developing accurate workload estimates. For example, at the Columbus DMC, the actual reported workload was about 74 percent more than the projected workload, while at the Warner Robins DMC, the actual reported workload was approximately 81 percent of the projected workload. While DISA has put into place mechanisms to better identify the current workload, additional efforts are needed to ensure that DISA receives accurate estimates on new workload requirements.

## Differences in Reported Costs of Operations Between DMCs Warrant Further Analysis

DOD has recognized that its computer centers have been operating inefficiently and that they need to adopt new technologies in order to continue supporting DOD's large and complex information infrastructure. The planned DMC consolidation is aimed at reducing DOD's infrastructure costs, thereby lowering the price charged to customers for IBM and UNISYS mainframe services. The House Appropriation Committee report 104-208, directed the Under Secretary of Defense (Comptroller) to determine the feasibility of outsourcing DOD's megacenters. A cost analysis was completed in February 1996 that detailed the overall cost of operating the DMCs.[1] Although the analysis was used as a factor in evaluating which DMCs would continue to provide mainframe services, it did not identify the specific costs of operating each DMC.

Our analysis of the reported cost of doing business disclosed that the cost varied considerably from DMC to DMC for both IBM and UNISYS work. The IBM costs, for example, ranged from a low of $40 per hour at the Ogden DMC to a high of $275 per hour at the San Diego DMC. Table 2.1 shows the reported fiscal year 1998 cost per central processing unit (CPU) hour for IBM and UNISYS platforms at individual DMCs.

[1] Strategy for Defense Information Services, February 9, 1996.

**Table 2.1: Reported Fiscal Year 1998 Cost Per CPU Hour for IBM and UNISYS at Individual DMCs**

| | Estimated Cost Per CPU Hour | |
|---|---|---|
| DMC | IBM | UNISYS |
| Chambersburg | $97.16 | [b] |
| Columbus | 83.76 | [b] |
| Dayton | 220.38 | [b] |
| Denver | 105.72 | $67.53 |
| Huntsville | 90.43 | [b] |
| Jacksonville | 184.01 | 28.71 |
| Mechanicsburg | 59.83 | [b] |
| Montgomery | [a] | 11.60 |
| Ogden | 40.35 | 22.20 |
| Oklahoma City | 126.05 | 22.14 |
| Rock Island | 150.64 | [b] |
| Sacramento | 129.05 | [b] |
| San Antonio | 79.00 | 10.59 |
| San Diego | 274.55 | 22.91 |
| St. Louis | 51.96 | [b] |
| Warner Robins | 106.73 | 17.97 |

[a]Montgomery does not operate IBM platforms.

[b]These DMCs do not operate UNISYS platforms.

Source: Defense Information Systems Agency. We did not independently verify this information.

The primary goal of the WCF financial structure is to focus the attention of all levels of management on the full costs of carrying out certain critical DOD business operations and the management of those costs. Analysis of the reported cost differences would be in accordance with this goal. However, DISA personnel stated that a formal analysis has not been conducted to determine the causes of DMC cost differences.

This analysis is especially critical for the six centers that are supposed to remain after the consolidation effort. These centers report wide variances in the cost per CPU hour. For instance, at the Ogden DMC, the IBM cost per CPU hour is approximately $40; at the Oklahoma City DMC, it is $126, over three times higher. By taking time now to analyze the cost differences at these and the other four remaining facilities, DISA managers can assess the causes of such variances and thereby identify inefficient operations and make fundamental improvements in how the centers conduct business before consolidation efforts are completed.

## Accurate Workload Estimates Are a Key Element in Setting Prices

Projecting workload accurately is a key element in setting prices that will help a business area to break even over time. Too high a workload estimate could result in the business area operating at a loss. Conversely, if the workload estimate is too low, the business area could have a profit. Although DISA has initiated efforts over the past several years to develop accurate workload estimates, it continues to struggle. For example, at the Columbus DMC, the reported actual workload was about 74 percent more than the projected workload, while at the Warner Robins DMC, the actual reported workload was approximately 19 percent less than the projected workload. The establishment of accurate workload estimates was one of the issues discussed in DOD's September 1997 plan to improve the operations of the WCFS. [2] The improvement plan notes that synchronizing customer funding and workload estimates is critical to ensure that WCF prices are based on realistic workload estimates and customer purchases are adequately funded. The plan noted that this does not always occur.

## More Accurate Workload Estimates Are Needed

In fiscal year 1994, DISA began identifying system utilization and developing projections of future customer workload requirements based on information provided by DMCs. However, according to DISA, this information has frequently been misclassified because clear definitions for customer identification codes—which identify the workload below the major command level—are lacking. In order to improve the reliability of customer projections, DISA validated customer identification codes for DMC customers in fiscal year 1997. DISA also took steps to capture the utilization data by installing measurement systems on IBM, UNISYS, and other hardware platforms. Data from these systems are fed to the MVS Information Control System (MICS), which now serves as DISA's workload reporting and invoicing system.

DISA has also gathered information from DMC staff on conditions that could have an impact on future requirements, such as missing data, changes in customer codes, and differences between historical and future volumes caused by workload migrations. However, despite these efforts, the inability to reasonably estimate the volume of services was the primary reason the mainframe services—IBM and UNISYS—had a reported net profit of approximately $90 million for fiscal year 1997. This profit was approximately 13 percent of the DMCs' reported revenue of about $682 million.

[2] A Plan to Improve the Management and Performance of the Department of Defense Working Capital Funds, September 1997.

Our analysis of DISA's workload execution reports showed that 7 of the 15 DMCS providing IBM mainframe services overestimated their CPU hour usage during fiscal year 1997, while 8 underestimated usage. For example, at the Columbus DMC, the actual usage was about 74 percent more than the projected usage. Further, our analysis of UNISYS workload reports also showed that actual processing at 5 of the 8 DMCS providing UNISYS[3] mainframe services was 57 percent to 70 percent of projected amounts. At one of the DMCS, however, the actual reported workload was almost 66 percent more than projected. Tables 2.2 and 2.3 show the projected and actual amounts of processing for IBM and UNISYS systems in fiscal year 1997.

**Table 2.2: Projected and Reported Usage of IBM CPU Hours by DMC for Fiscal Year 1997**

| DMC | Projected IBM CPU hours | Reported usage of IBM CPU hours | Difference | Percent of actual to projected usage |
|---|---|---|---|---|
| Chambersburg | 152,598 | 137,198 | (15,400) | 89.91 |
| Columbus | 237,598 | 412,421 | 174,823 | 173.58 |
| Dayton | 56,211 | 53,984 | (2,227) | 96.04 |
| Denver | 135,913 | 171,894 | 35,981 | 126.47 |
| Huntsville | 126,656 | 110,102 | (16,554) | 86.93 |
| Jacksonville | 15,483 | 20,413 | 4,930 | 131.84 |
| Mechanicsburg | 501,228 | 524,799 | 23,571 | 104.70 |
| Ogden | 257,676 | 172,186 | (85,490) | 66.82 |
| Oklahoma City | 98,838 | 149,155 | 50,317 | 150.91 |
| Rock Island | 84,639 | 140,382 | 55,743 | 165.86 |
| Sacramento | 41,853 | 6,469 | (35,384) | 15.46 |
| San Antonio | 81,512 | 66,036 | (15,476) | 81.01 |
| San Diego | 11,976 | 20,177 | 8,201 | 168.48 |
| St. Louis | 250,118 | 274,937 | 24,819 | 109.92 |
| Warner Robins | 56,264 | 45,420 | (10,844) | 80.73 |

Source: Budget Execution and Monitoring System Industrial Fund Workload Execution Reports for fiscal year 1997. We did not independently verify this information.

[3]UNISYS workload is measured in standard units of processing (SUPS). SUPS include CPU processing time and the amount of time taken for data input/output transfer functions. In contrast, IBM workload is measured in CPU hours alone and does not include transfer time.

**Table 2.3: Projected and Reported Usage of UNISYS Standard Units of Processing (SUPS) by DMC for Fiscal Year 1997**

| DMC | Projected UNISYS SUPS | Reported usage of UNISYS SUPS | Difference | Percent |
|---|---|---|---|---|
| Denver | 79,428 | 50,671 | (28,757) | 63.79 |
| Jacksonville | 268,875 | 446,097 | 177,222 | 165.91 |
| Montgomery | 915,960 | 602,740 | (313,220) | 65.80 |
| Ogden | 486,096 | 402,170 | (83,926) | 82.73 |
| Oklahoma City | 452,278 | 406,147 | (46,131) | 89.80 |
| San Antonio | 1,197,204 | 797,753 | (399,451) | 66.63 |
| San Diego | 163,779 | 114,106 | (49,673) | 69.67 |
| Warner Robins | 569,292 | 322,545 | (246,747) | 56.66 |

Source: Budget Execution and Monitoring System Industrial Fund Workload Execution Report for fiscal year 1997. We did not independently verify the information.

In discussing the workload fluctuations with DISA-WESTHEM personnel, we were informed that although they are responsible for estimating future requirements for DMC services, the accuracy of these estimates depends heavily on information provided by DISA customers. According to DISA-WESTHEM personnel, systems have been installed which enable DISA to determine the amount of services actually provided to DMC customers. However, DISA-WESTHEM cannot easily identify all of the factors that could cause a change in future customer needs. For example, the current DOD initiatives to standardize systems have led to widespread migration of workloads from numerous older systems to new systems. Central Design Activities are responsible for maintaining existing systems and for working with customers on the development of replacement systems. Decisions concerning the types of data to be maintained by the new systems and specific program operations affect the types and amounts of DMC services required, such as data storage and the number of input/output operations that will occur during program execution. In addition, the actual pace of progress made in developing, testing, installing, and implementing the new systems affects the volume of processing that will continue to be done on the legacy systems. For example, the Chief of the Resource Management Branch in the Denver DMC Business Management Division stated that the CPU hours for the Defense Civilian Pay System were 46 percent higher than projected in fiscal year 1997 because of an increase in accounts migrated from legacy systems requiring mainframe processing services.

DISA-WESTHEM officials also confirmed that this issue is continuing to hinder their ability to develop accurate workload estimates. For example,

DISA-WESTHEM was recently notified that the planned migration of the Base Level Personnel System workload from DISA to Randolph Air Force Base on September 30, 1998, has been delayed until fiscal year 2000. As a result, DISA will be providing about $7 million in services during fiscal year 1999 that were not included in its customer projections or factored into DISA's prices for the fiscal year. DISA-WESTHEM officials further noted that the workload for the Defense Transportation Reporting System is now four times the fiscal year 1997 projected level. DISA only received 30 days notice of the increased workload. Because of the long lead time to develop prices, which is tied to preparing the budget, this additional workload will not be reflected in the fiscal year 1999 prices. All these factors impact the DMCs' ability to accurately estimate their workload. Without sound workload estimates, the credibility of the prices being charged is questionable.

## DOD Improvement Plan Recognizes Importance of Accurate Workload Estimates

In response to the National Defense Authorization Act for Fiscal Year 1997, DOD developed a plan to improve the operation of the WCFs. One of the issues discussed in the plan was the importance of accurate workload estimates and the potential effect of inaccurate estimates on the results of operations. The plan points out that revolving fund activity workload and customer funding should be synchronized. This synchronization is critical to ensure that prices are based on realistic workload estimates and expected purchases are adequately funded. The plan points out that this does not always occur. In the case of the DMCs, the higher than anticipated workload in fiscal year 1997 was a primary reason the IBM and UNISYS mainframe services reported a net profit of $90 million in fiscal year 1997.

Within DOD, the Office of the Comptroller is the one entity that should have, or be able to obtain, information on the workload estimates contained in customers' budget request and the revolving fund activity estimates of workload to be performed for customers. As part of its program budget review process, in which the prices are finalized, the Comptroller's office could use the information to review and resolve workload differences between DISA and its customers. A more accurate workload estimate should help reduce the problem of customers not being able to pay for all services provided, which is discussed in further detail in chapter 4.

## Conclusions

DOD has recognized the need to continue reducing the cost of its computer centers' operations through consolidations. Over the next 2 years, DISA

plans to complete the consolidation of its mainframe processing centers from 16 to 6 locations. In planning the consolidation effort, DISA identified the cost of operating the DMCs and used these data in the decision making process. However, by not analyzing significant differences between the reported cost of operations at the DMCs that will remain after the consolidation is completed, DOD is forgoing an opportunity to further enhance the efficiency of DMC operations and make fundamental improvements in the services provided. Further, until DOD improves its workload projections, it will continue to experience difficulty in setting accurate prices and, in turn, ensuring that the DMCs do not incur excessive profits or losses.

## Recommendations

We recommend that the Director of DISA

- analyze the cost differences in the estimated cost per CPU hour at the DMCs as part of the consolidation effort and identify improvements needed in how they conduct business and
- compare forecasted workload estimates to actual work received and consider these trends in developing the workload estimates and prices to charge customers for the services provided.

We also recommend that as part of the price-setting process, the Under Secretary of Defense (Comptroller) ensure the workload estimates in DISA and customer budgets agree.

## Agency Comments and Our Evaluation

DOD did not agree with our recommendations that DISA (1) analyze the cost differences at the DMCs and identify improvements needed in how they conduct business and (2) compare forecasted workload estimates to actual work received and consider these trends in developing the workload estimates and prices to charge customers for the services provided. DOD agreed with our recommendation that the Under Secretary of Defense (Comptroller), as part of the price-setting process, ensure the workload estimates in DISA and customer budgets agree.

In its response, DOD stated that analyses of cost differences have been made and provided to DISA management and that along with other analyses they were used to plan the ongoing consolidation of the DMCs. Our report fully recognizes the efforts DISA put forth in planning the consolidation and the importance the February 1996 cost analysis played in the decision-making process. However, our analysis disclosed that there were

considerable differences in the reported cost of doing business between the DMCs. Our conclusion that opportunities for savings exist is based in part on the magnitude of the DMC operating cost differences which now exist—the reported variance per CPU hour is $40.35 to $274.55. Further, in an August 1998 meeting, the Acting Deputy Comptroller and the Resource Manager, Operations Directorate, stated that DISA has not formally analyzed the reasons for the cost differences between the DMCs. Furthermore, a DISA official acknowledged that DISA had not studied the differences in costs between DMCs providing the same or similar service. This evidence clearly indicates to us that despite earlier analyses, a more rigorous study of costs is warranted to determine and correct the underlying causes of these differences.

DOD also disagreed with our characterization of the need for improvements in the estimation of the workload performed by the DMCs. DOD noted that given the changes brought on by the consolidation effort, it is difficult to develop accurate workload estimates. DOD also noted that as discussed in the report, the process of developing workload starts 2 years before the prices go into effect. DOD further stated that regardless of the quality of the estimated workload, the customers will inevitably change workload requirements to meet their current situation.

The report recognizes the efforts that DISA has undertaken to improve the accuracy and reliability of its workload estimates, the obstacles it faces in doing so, and the difficulty involved in precisely estimating the workload to be performed. Indeed, there will always be some variance between the estimated workload and the actual work performed by the DMCs. However, the extent of the reported workload variance for IBM CPU hours (from about 74 percent more than the projected workload at Columbus DMC to about 19 percent less than the projected workload at the Warner Robins DMC) is much greater than would normally be expected. The DMCs posted a $90 million net profit for mainframe services in fiscal year 1997 primarily because workload volumes were substantially higher than anticipated.

Since the volume of workload is one factor in determining the CPU hourly price, the accuracy and reliability of the workload estimate is critical in establishing an hourly CPU price. Conceptually, the larger the volume of work to be performed the lower the price because the cost of operations can be spread across more CPU hours. Therefore, for fiscal year 1997, a more accurate workload estimate for the DMCs would have resulted in a lower CPU hourly price for IBM mainframe services and a higher hourly price for UNISYS mainframe service. A lower hourly IBM mainframe price

may have afforded some customers, such as DFAS, the opportunity to pay for more of the services DISA provided.

Further, as discussed in the report, DISA personnel developing mainframe projections stated that they rely heavily on data gathered on past workload levels and that these data do not necessarily reflect future requirements. They emphasized that outside customers, such as the Central Design Activities, should have the most immediate knowledge of application systems run at the DMCs and the times when workloads will be moved from one platform to another.

# Telecommunications Prices Do Not Reflect the Full Cost of Operations

In addition to the DMC pricing concerns discussed in chapter 2, our analysis of the Defense Information Services business area also disclosed that DISA was not recovering the full costs incurred in providing telecommunications services. Recovering the full cost of operations is one of the basic underpinnings of the working capital fund (WCF). Not including the full cost of operations in developing prices understates the prices charged customers for the services provided. Our review disclosed that DISA did not include in its prices approximately $77 million related to transitioning independent networks to the Defense Information Systems Network (DISN) in accordance with DOD's Financial Management Regulation. Further, we found approximately $60 million of costs that were not incorporated in DISA's computation of its fiscal year 1998 telecommunications prices.

In addition, while reviewing DISA's fiscal year 1998 telecommunications prices, we identified at least $231 million in appropriated funds that supported WCF activities. However, based upon our review of DISA's fiscal year 1998 budgetary request, the rationale for financing WCF-related costs through the use of appropriations was not clear. Normally, costs are recovered through customer billings and, in most instances, the WCF generally does not receive appropriations for financing day-to-day operations. Since the Defense Information Services business area prices do not take into consideration the use of appropriated funds, this further understates the prices charged for services offered by DISA. Furthermore, a recent pricing study[1] performed by a private contractor concluded that while overall workload estimates were accurate for existing services, DISA's telecommunications costs were supported by appropriations and thus were excluded from its telecommunications prices.

## Some Costs Not Included in Telecommunications Prices

DOD policy requires business activities to identify the direct and indirect costs of doing business and to incorporate these costs into their prices. To ensure that WCF customers have enough funds to pay for the services they need to sustain their readiness, DOD policy requires that prices be established before the start of the fiscal year and remain in effect for the entire year. The process for establishing telecommunications prices generally is finalized about 10 months before the prices go into effect with CISA developing workload projections for each service offered for the budget year based on customer input.

[1]DISN Business Process, Cost, and Methodology Review (Price Waterhouse, January 29, 1998).

In establishing CISA prices, cost data are collected related to (1) network operations, (2) network management, (3) provisioning, (4) systems development, (5) network transition, (6) equipment, and (7) prior year profits or losses. The prices charged customers vary based on service offering, data versus voice usage, calling area, precedence capability, bandwidth, and usage. In instances where usage data are not available, DISA may allocate the cost based on the average cost of using the service or attempt to establish prices that are competitive with the commercial sector or other federal entities. In addition, DISA adds a surcharge to each customer's bill to recover general and administrative overhead expenses. Although DISA went through this process, our analysis disclosed that CISA's telecommunications prices did not always include the total costs. For example, $77 million for transitioning telecommunications networks was not recognized in the prices charged customers. Further, for fiscal year 1998, we found that $49 million for a prior year loss and $11 million of overhead were not included.

## Transition Costs Not Included in Telecommunications Prices

To improve the effectiveness and efficiency of its military communications services, DOD began in 1991 to plan and implement DISN to serve as the department's worldwide telecommunications and information transfer network to support national security and defense operations. DOD's strategy focuses on replacing its older data communications systems using emerging technologies and cost-effective strategies that provide secure and interoperable voice, data, video, and imagery communications services in support of military operations. DISN is a subset of the Defense Information Infrastructure (DII), which is a combination of communication networks, computers, software, databases, and other services. As stated in the WCF FY 1999 Amended Budget Estimates, dated February 1998, DISA is responsible for the pricing of DISN through the CISA business activity. According to DISA's WCF charter, the responsibilities of the WCF expanded with the formulation of DII in order to create a seamless, transparent, and protected end-to-end information transfer capability.

Although DISA is responsible for the pricing of DISN through CISA, it excluded approximately $77 million related to transitioning independent networks to DISN from its telecommunications prices.[2] According to the Chief of the Revolving Funds Division, transition costs were expected to

[2]Initially, we were informed that the transition costs—costs due to DISN implementation delays and running dual networks—were approximately $117 million. In August 1998, DISA officials stated that the transition costs had increased to $127 million. On November 25, 1996, the Under Secretary of Defense (Comptroller) had approved the exclusion of $50 million in transition costs from future year prices.

be offset by revenues generated from new customers, contract savings, discounts and DISA appropriations.[3] For example, in developing the prices for fiscal year 1998, transition costs were reduced by the amount of the collections that DISA anticipated receiving from a contractor because of savings and volume discounts. DISA's offsetting of costs in this manner is not in accordance with the DOD's Financial Management Regulation,[4] which states that realized gains are generally reflected in offsetting adjustments to prices established in subsequent fiscal years.

In addition, this method of accounting for costs and revenue understates the actual cost incurred in providing services to the customer. If the full costs are not identified, the primary goal of the WCF financial structure—focusing attention on the full costs of operations and on managing those costs—cannot be met and management is not in a position to act. Further, WCF prices should recover operating expenses (full costs) to be incurred in the applicable fiscal year unless an exception is granted by the Under Secretary of Defense (Comptroller).

In discussing this matter with the Office of the Under Secretary of Defense (Comptroller), we were informed that the office was not aware that the transition costs had increased to $127 million. The office also believed that DISA's method of accounting for the costs and revenues was inappropriate and that all costs, other than a one-time $50 million cost exclusion, should have been included within the appropriate year's price computation.

## Fiscal Year 1996 Telecommunications Loss Not Included in Prices

Our review of CISA's fiscal year 1998 telecommunications prices disclosed that losses from telecommunications operations were not recovered in accordance with DOD policy. In keeping with DOD's policy, the reported accumulated operating loss at the end of fiscal year 1996—$49 million—should have been included in fiscal year 1998 prices, but it was not. In discussions with DISA and the Office of the Under Secretary of Defense (Comptroller), we pointed out that the $49 million was reported in DOD's financial reports at the end of fiscal year 1996 and therefore should have been considered in developing the prices for fiscal year 1998. While the Comptroller's office agreed, it was unable to explain why the $49 million loss from fiscal year 1996 had not been incorporated into the fiscal year 1998 prices. We verified that the financial results of operation for fiscal year 1997 had been incorporated into prices for fiscal year 1999.

[3]During fiscal years 1996 and 1997, DISA paid approximately $10 million of DISN transition costs from its appropriations.

[4]DOD Financial Management Regulation, Volume 11B, Chapters 50, 61, and 62.

## Overhead Costs Not Included in Telecommunications Prices

Normally, WCF prices should recoup all costs of doing business, including overhead costs. In this regard, DOD WCF requirements allow for surcharges to be used to recover general and administrative costs. To recoup its telecommunications overhead cost, CISA applies a 2 percent surcharge to the total cost of each customer's bill. According to the revolving fund manager, the percentage factor is applied because it is less complicated than determining the actual amount of overhead cost related to each specific service.

For fiscal year 1998, we found that the 2 percent surcharge will generate $44 million in revenue, which is $11 million less than the estimated overhead costs of $55 million. This shortfall is the result of not including all overhead costs when the fiscal year 1998 prices were developed. According to the Chief of the Revolving Fund Division, DISA is establishing additional surcharges to recover all overhead costs for the various services CISA offers. It is anticipated that these additional surcharges will be effective for fiscal year 2000.

## Appropriated Funds Used to Pay for Some Costs

DOD's WCF statute requires that the full costs of services or work performed be recovered through prices charged customers and recognizes that the fund may also receive appropriations for the purpose of providing capital as have been specifically authorized by law.[5] Our review of DISA's information technology (IT) budget for fiscal year 1998 identified many instances in which the Congress appropriated non-WCF funds that can be used to subsidize the cost of the Defense Information Services business area. DISA's fiscal year 1998 budgetary request did not clearly delineate the rationale for using appropriated funds to finance WCF-related services. Since DISA does not include the costs paid for by appropriations within the prices, customers are not charged the full cost of services offered.

As the central manager for the Defense Information Infrastructure, DISA annually receives appropriations for (1) Operations and Maintenance (O&M), (2) Procurement, and (3) Research, Develop, Test and Evaluation, along with authority for its working capital budgets. DISA's appropriations may be spent for various purposes, including (1) establishing new services, (2) paying for program and technical activities, and (3) maintaining the communications and computer infrastructure. Our analysis of the budget request showed that at least $231 million of fiscal year 1998 appropriations support the WCF, including the following.

[5] 10 U.S.C. 2208. DOD's working capital fund regulations note that occasionally the funds will receive funding from an appropriation or transfer to cover a loss. (DOD Financial Management Regulation, Volume 11B, 50.A.1.h and 52.C).

Appendix II provides additional details regarding DISA IT appropriated funding being used to support WCF activities.

- Approximately $87 million of DISA's fiscal year 1998 O&M and $19 million of Procurement authority were used to enhance DISA's information systems security. The information systems security program was established to reduce the vulnerability of DOD's existing telecommunications networks and data processing centers, including the systems operated as part of the WCF, to intrusion. DISA estimates that approximately 25 percent of its information systems security appropriations is used for improving the security of systems under the working capital fund.
- Approximately $34 million of O&M and $43 million of Procurement authority were used to cover the cost of replacing the current messaging service, the Automatic Digital Network (AUTODIN), with the Defense Message System (DMS). The objectives of DMS are to reduce cost, reduce staffing requirements, improve security, and improve DOD messaging services. For fiscal year 1998, the costs for AUTODIN and the network management and operational costs for DMS were funded through the CISA activity.
- Approximately $60 million of O&M authority was provided to DISA for implementing DISN, which as discussed previously, is replacing legacy telecommunications systems. Although DISA's information infrastructure plan states that DISN operates on a fee-for-service or working capital basis, only the long haul component is currently paid for through the WCF.

Further, our analysis of DISA's O&M fiscal year 1998 budget identified the following instances in which appropriated funding was provided to organizational components supporting WCF activities.

- Approximately $138 million of DISA's fiscal year 1998 O&M appropriation was designated for the Joint Interoperability and Engineering Organization (JIEO). JIEO's mission is to ensure the interoperability of the Defense Information Infrastructure which includes those systems that are funded through DISA's WCF. In addition, JIEO provides engineering support for all information transfer and network control systems managed by DISA. For example, the JIEO's Center for Application Engineering is responsible for message handling for both DMS and AUTODIN—current components of the WCF. According to the Deputy Director for Strategic Plans and Policy, at least $6 million of the $138 million could be transferred from the O&M appropriation to the WCF.
- The DISN Service Center (DSC) mission is to manage provisioning, implementation, and operational control of telecommunications services

under CISA. However, according to the Resource Manager for DISA operations, DSC is funded for fiscal year 1998 operations through the working capital fund and DISA's O&M appropriation. For fiscal year 1998, DSC received approximately $7.7 million in O&M funds to cover mission support and customer service activity. Mission support and customer service costs include civilian salaries, rents, utilities, travel, and training.

- Approximately $7 million of DISA's fiscal year 1998 O&M authority was used to cover the cost of operating DISA-Western Hemisphere, which is responsible for overseeing the operations of the DMCs. In addition, approximately $17 million and $5 million of DISA's fiscal year 1998 O&M and Procurement authority, respectively, were used for the DISA Continuity of Operations and Test Facility (DCTF). DCTF provides innovative and integrated services for the DMCs, including disaster contingency planning. The DMCs are part of the WCF.
- After conducting a review of civilian salaries paid from its O&M appropriation, DISA identified at least $12 million of the $172 million authorized for fiscal year 1998 that could be transferred to the WCF. In addition, DISA stated that a portion of the $21 million authorized for travel would also need to be adjusted for those civilians who could be realigned to the WCF.

According to DISA's Acting Deputy Comptroller and the Chief of the Revolving Funds Division, the development of new DISA services has traditionally been paid for with appropriated funds. New services are not incorporated into the WCF until they are operational and a customer base has been identified. However, according to DOD working capital regulations,[6] reinvestment in the infrastructure of business areas in order to improve product and service quality and timeliness, reduce costs, and foster comparable and competitive business operations is the primary goal of the WCF Capital Investment Program, whose use applies to all activities or groups of activities within the defense agencies, including DISA.

We also noted that DISA was using military departments' telecommunications components to supplement its telecommunications architecture. Because the military departments pay for these components, they were not included in DISA's prices. For example, the Defense Satellite Communication System (DSCS) is owned, operated, and paid for by the Air Force and Army but used by CISA—more specifically, DISN—in providing services to its customers. According to DISA, though some telecommunications traffic does pass over the DSCS, DOD has kept both operation and life-cycle replacement of DSCS, as well as other military

[6]DOD Financial Management Regulation, Volume 11B, Chapter 58.

satellite communication systems, out of the WCF by policy. For fiscal year 1998, DISA estimated that its DSCS usage would cost approximately $46 million annually if procured from the commercial sector.

Further, a recent study[7] performed by a private contractor at DISA's request concluded that while the overall workload estimates for existing services are accurate, DISA's telecommunications prices were supported by appropriated funds which were excluded from the prices charged customers. The study states that excluding costs understates the true costs of operations. For example, the study stated that DISA's Asychronous Transfer Mode (ATM) prices were considered more competitive than commercial prices. However, our review showed that DISA's ATM price excluded the cost for base support, such as floor space and power. The study also found that the WCF paid for some unique military capabilities. In commenting on the study, DISA's Deputy Director for Strategic Plans and Policy acknowledged that in some instances appropriated funds are supporting the WCF. He further stated that DISA was reviewing its pricing structure to identify those costs that should be part of the WCF.

## Conclusions

Working capital funds can break even over time by ensuring that all direct and indirect costs of conducting business are incorporated into their prices. Yet, DISA has been excluding from its telecommunications prices millions of dollars related to transitioning independent networks to the new common-user network, prior-year losses, and overhead expenses. In addition, significant costs associated with providing data processing and telecommunications services through the WCF are not being recovered through the prices charged, but rather, are paid for by appropriations. DISA's budgetary request does not clearly state why appropriated funds are necessary to finance WCF-related services. Using appropriated funds further understates DISA's WCF prices and undermines business area managers' abilities to focus on their operating costs and to make fundamental improvements in their operations.

## Recommendations

We recommend that the Director, DISA,

- ensure that transition costs and revenues are considered when computing telecommunications prices, in accordance with the criteria set forth in DOD's Financial Management Regulation, and

[7]See footnote 1.

- as part of DISA's fiscal year 2000 budget, identify (1) all appropriations used in support of WCF activities and (2) the specific reason(s) the appropriated funds are being used to support the activities of the WCF.

## Agency Comments and Our Evaluation

DOD did not concur with our recommendations to ensure that transition costs and revenues are considered within the computation of telecommunications prices in accordance with the criteria set forth in DOD's Financial Management Regulation. DOD also disagreed with our recommendation that DISA, as part of its fiscal year 2000 budget, identify (1) all appropriations used in support of WCF activities and (2) the specific reason(s) the appropriated funds are being used to support the activities of the WCF. DOD further commented that all costs—more specifically the $137 million discussed in the report—related to the telecommunications services have been considered in developing the prices charged customers.

DISA may have considered these costs in the development of the prices, but the $137 million was either (1) not included in the fiscal year 1998 prices or (2) not considered within the framework of DOD's Financial Management Regulation. For example, in a July 30, 1998, meeting with DOD and DISA officials, a DISA representative told us that the $11 million in overhead costs were not included within the prices for fiscal year 1998. This statement supports our analysis of the fiscal year 1998 price computation, which disclosed that the $11 million was not included. Our review showed that the revenue was approximately $44 million, whereas the cost was $55 million. Further, as discussed in the report, the Chief of the Revolving Fund Division acknowledged that there was an overhead shortfall in fiscal year 1998. To recover these costs, additional surcharges will be used starting in fiscal year 2000. In addition, according to the Office of the Under Secretary of Defense (Comptroller), although the $49 million loss discussed in the report should have been included within the prices for fiscal year 1998, it was not. Therefore, there is much evidence to indicate that $60 million of the $137 million was not included in the fiscal year 1998 prices charged customers.

Further, as stated in the report, DISA's methodology for accounting for the $77 million in transition costs is inconsistent with DOD's Financial Management Regulation. The regulation clearly states that all estimated costs of providing the customer with goods and services should be included in the prices charged customers. It also stipulates that any realized gains should be used to offset the estimated costs in subsequent

fiscal years. In addition, the Office of the Under Secretary of Defense (Comptroller) stated that it is DOD policy to treat transition costs as operating expenses and, therefore, these costs should be included in the price charged customers. However, as discussed previously, DISA did not adhere to this prescribed policy, thus understating the full cost of operations in a given fiscal year.

We disagree with DOD's position that it is not necessary to provide the Congress more detailed information on the use of appropriated funds in support of the WCF. Our review of DISA's fiscal year 1998 budgetary request found that it did not delineate the rationale for using appropriated funds to finance WCF-related services. Significant costs associated with providing data processing and telecommunications services through the WCF are being subsidized by appropriations. Using appropriated funds further understates DISA's WCF prices. The intent of our recommendation is to provide the Congress with information that will enable it to decide whether to continue funding DISA services, where applicable, through both appropriations and the WCF. In this regard, House Report 105-532, dated May 12, 1998, on the National Defense Authorization Act for Fiscal Year 1999, directs the Secretary of Defense, beginning with the fiscal year 2000 budget request, to more appropriately reflect and justify the DISA non-WCF budget request. Satisfying the language in the House Report will meet the intent of our recommendation.

# DISA Not Reimbursed for Services Provided

WCF activities rely on prompt reimbursement to be financially stable. Customer payments are used to finance subsequent operations, much as sales revenues are used in commercial enterprises. However, we found that DISA customers were not promptly paying for services provided. Additionally, in fiscal years 1996 and 1997, the DMCs did not bill customers $115 million for services provided.[1] Further, these amounts were not recorded in DISA's accounting records in accordance with federal accounting standards.

## Accounts Receivable Not Collected in a Timely Manner

DOD Financial Management Regulation, Volume 4, provides that "procedures shall be established for the routine aging of all amounts overdue so that appropriate actions can be taken to affect their collection. The aggressive and efficient management of receivables in the Department of Defense is an important element of DOD stewardship over public funds."

Our review of DISA WCF accounts receivable showed that DISA was not being promptly reimbursed millions of dollars for services it provided. As of January 1998, 31 percent of the reported accounts receivable, or about $173 million, was reported outstanding for over 60 days. Of the $173 million in receivables, $19.3 million was related to the DMCs and $154 million to CISA. The DMC accounts receivables were generally due from DOD customers, while CISA's accounts receivables were generally due from other federal government entities. The following table provides aging information on DISA's accounts receivable over 60 days old.

[1]This information was provided by DISA. It comes from the Budget Formulation and Execution Monitoring System and the MVS Information Control System. We did not independently verify the accuracy of these data.

**Table 4.1: Reported Accounts Receivable More Than 60 Days Old as of January 1998**

Dollars in thousands

| | Aging of accounts receivable (in days) | | | |
|---|---|---|---|---|
| **Business activity** | **61-90** | **91-120** | **Over 120** | **Total** |
| **DMC** | | | | |
| DOD customers | $14,806 | $156 | $4,046 | **$19,008** |
| Other federal customers | 0 | 0 | 322 | **322** |
| Public | 0 | 0 | 0 | **0** |
| **Subtotal** | **$14,806** | **$156** | **$4,368** | **$19,330** |
| **CISA** | | | | |
| DOD Customers | $16,720 | $16,576 | $24,711 | **$58,007** |
| Other federal customer | 18,368 | 17,726 | 59,472 | **95,566** |
| Public | 12 | 11 | 322 | **345** |
| **Subtotal** | **$35,100** | **$34,313** | **$84,505** | **$153,918** |
| **Total** | **$49,906** | **$34,469** | **$88,873** | **$173,248** |

Source: Data provided by DISA and DFAS. We did not independently verify this information.

Examples of the information service business area receivables that have not been promptly reimbursed follow.

- As of January 1998, the Federal Aviation Agency (FAA) had not reimbursed DISA approximately $50 million for telecommunications services. The entire $50 million was over 60 days old, with $16 million over 120 days old. According to FAA personnel, there is an approximately 2-month cycle for billing and paying for DISA telecommunications services. DISA's Acting Comptroller and FAA personnel stated that they are discussing the use of electronic payments in order to reimburse DISA in a more timely manner.
- As of January 1998, DISA had not been reimbursed approximately $12 million for telecommunications services provided to the Department of State. Approximately $11 million was over 120 days old. Although DISA had routinely sent out past due notices for amounts owed, it had not inquired why State had not paid. Officials within State's Office of the Comptroller acknowledged that the amounts were owed to DISA.
- A July 10, 1996, memo from the Director, Resource Management, DFAS-Denver Center, stated that DFAS-Headquarters had directed it to hold data processing costs constant by not reimbursing the DMCs for fiscal year 1996 data processing services beyond the amount paid in fiscal year 1995. As a result, the DMCs were not reimbursed approximately $3 million in fiscal year 1996 for data processing services.
- DISA had not reimbursed itself for approximately $11 million in DMC services and $9 million in telecommunications services as of January 1998.

Both amounts were over 60 days old. According to DISA DMC officials, at a minimum, it takes 2 months to process a payment voucher, ask DFAS to make the transfer, and liquidate the internal receivable. DISA is currently working with DFAS to shorten its internal funds transfer process. In addition, according to DISA telecommunications officials, DISA had not collected amounts owed by its internal customers because these customers had failed to provide correct funding information.

Since most of the receivables are from government entities and constitute the primary source of revenue for the WCF, these amounts should be collected.

## DMCs Classify Some Unpaid Amounts as Unbilled

Our review of DISA documentation indicated that the DMCs performed approximately $115 million of billable work during fiscal years 1996 and 1997 for which they were not reimbursed. This represents about 8 percent of the DMC revenues for the 2 fiscal years. DISA performed this work without receiving the required funding document from its customers. DOD Financial Management Regulation, Volume 11B, Chapter 61, states that as a general rule, no work or services should be performed by a business activity unless a reimbursable order is received and accepted. Such orders constitute obligations of federal government ordering activities or advances from nonfederal government entities. Further, DISA's method of accounting for the $115 million was not in accordance with federal accounting standards.

Based upon information provided by DISA, as of November 1997, DFAS had not reimbursed DISA $11.7 million and $32.3 million in fiscal years 1996 and 1997, respectively, for work performed. According to the DOD Comptroller's office, DFAS did not reimburse DISA for all service provided in fiscal year 1996 because the amount DFAS budgeted was less than the cost incurred. DFAS stated that the primary cause for nonpayment in fiscal year 1997 was that work had been reclassified into a different category which resulted in a higher price for the service. DFAS noted that this occurred after its fiscal year 1997 budget had been set and its level of funding approved. In discussing this issue with the Office of the Under Secretary of Defense (Comptroller), we were informed that discussions are being held with DFAS and DISA to determine the most appropriate means to resolve the nonpayment issues.

Under DOD's policy, prices are set at the beginning of the fiscal year and are to remain in effect for the entire year. Similarly, customer budgets are

to include sufficient funds to pay for the services requested. This process should result in the WCF breaking even. However, during fiscal year 1997, DISA initiated efforts to better define the cost associated with its IBM and UNISYS mainframe processing. The specific services that DISA determined not to be related to mainframe processing were placed in another category. According to DFAS personnel, DFAS was charged a higher price for work as a result of the reclassification, and these higher prices were not anticipated when its fiscal year 1997 budget was developed, about 2 years prior to the start of the fiscal year.

DISA's efforts to reclassify its work is consistent with the WCF concept because it will result in more costs being aligned with the appropriate customers. Further, this effort should provide for a more accurate accumulation of DISA's cost of operations and thereby enable DISA to develop more realistic prices for its services. However, DISA's efforts were not coordinated with the overall WCF budget-setting process. As a result of reclassifying of the work to a higher cost category, the DFAS budget approved by the Office of the Secretary of Defense (Comptroller) was not sufficient to pay for the higher cost incurred.

We also found other instances in which DISA was not reimbursed for all services provided.

- According to information provided by the Defense Logistics Agency (DLA), it did not reimburse DISA approximately $25.6 million during fiscal year 1996 for services provided. For fiscal year 1996, DISA billed DLA approximately $101.6 million, but DLA had only budgeted $76 million to reimburse DISA. According to DLA, the Office of the Secretary of Defense decided that DLA would have to reimburse DISA only the budgeted amount and DISA would have to absorb the $25.6 million shortfall. A similar shortfall occurred during fiscal year 1997. In an August 7, 1997, memo, signed by DISA's Acting Comptroller and DLA's Comptroller, it was agreed that DLA's billing for fiscal year 1997 would be capped at $82 million—the maximum amount DLA would have to pay for the services DISA provided. According to DLA, the billings from DISA would have been about $108 million if the cap had not been in place. In addition, the funding shortages can be attributed to (1) workload projections not being available when the fiscal years 1996 and 1997 budgets were developed and (2) DLA's approved funding not being commensurate with prices charged by DISA.
- The Marine Corps did not reimburse DISA $1 million in fiscal year 1996 and $6 million in fiscal year 1997. According to the Marine Corps official responsible for the information technology budget, DISA formally agreed to

bill the Marine Corps up to the amount budgeted for each fiscal year. However, for each fiscal year, DISA's actual cost incurred in providing services to the Marines Corps exceeded the budgeted amount. As a result of the agreement, DISA was not reimbursed for total costs it incurred.

Further, DOD's Financial Management Regulation prohibits the recognition of revenue and the corresponding recording of accounts receivable in the absence of the requesting activity having funding authority.[2] Therefore, DISA did not report the $115 million for unbilled work for fiscal years 1996 and 1997 as part of its accounts receivable. Instead, DISA reported the $115 million through a work-in-process account. Federal accounting standards require that accounts receivable be established when a federal entity establishes a claim based on goods or services provided.[3]

## Conclusions

Being reimbursed for work performed is essential to the Defense Information Services business area's financial stability since this is the principal means through which it receives the funds needed to cover operating expenses. Since virtually all of the receivables are from government activities, it seems reasonable to expect that they should be collected. Nevertheless, about one-third of the business area's accounts receivable have been outstanding for more than 60 days. While the lack of prompt reimbursement is a concern, the failure to be reimbursed for services provided is a more pressing issue to be addressed.

## Recommendations

We recommend that the Under Secretary of Defense (Comptroller) direct

- DOD activities to follow existing DOD Financial Management Regulation by providing funding documents to DISA for the amount of services being requested before DISA begins work,
- DOD activities to reimburse DISA for the full amount of services provided, and
- DISA to record amounts it is owed for services provided in accordance with federal accounting standards.

[2]DOD Financial Management Regulation, Volume 11B, Chapter 61, Section A. 7a.

[3]FASAB Volume I Original Statements: Statements of Federal Financial Accounting Concepts and Standards (GAO/AIMD 21.1.1 March 1997).

## Agency Comments and Our Evaluation

DOD agreed with our recommendations to direct (1) DOD activities to provide DISA funding documents for the amount of services requested prior to work beginning, (2) DOD activities to reimburse DISA for the full amount of services provided, and (3) DISA to record amounts it is owed for services provided in accordance with federal accounting standards.

However, DOD stated that we did not recognize DISA's progress in obtaining quicker reimbursement for the services provided by aggressively following up on outstanding amounts and using electronic payments. In July 1998, we contacted FAA to inquire about the progress being made in establishing an electronic payment process with DISA. A FAA representative stated that although discussions had been held with DISA concerning this matter, nothing had been finalized. Further, DISA-WESTHEM informed us that as of July 1998, it was estimating that DFAS will not reimburse DISA approximately $40 million for services provided in fiscal year 1998. Based upon these representations, it is not clear how much progress has actually been made.

# Effective Management Requires Accurate Financial Data

Meaningful and reliable financial reports are essential to allow DISA to monitor the financial results of operations and set realistic prices to charge the customer. Reliable financial reports are also necessary to enable the Congress to exercise its oversight responsibility. However, weaknesses within DISA's internal control and accounting systems have hindered the development of accurate financial reports. The primary cause of these weaknesses is the Industrial Fund Accounting System (IFAS), which is used by the DMCs.

As noted in DOD's Chief Financial Officer's status report for fiscal year 1997,[1] IFAS cannot provide financial data that are complete, reliable, consistent, timely, and responsive to the needs of agency management. Because of these weaknesses, the DOD IG was unable to express an opinion on DISA's fiscal year 1997 financial statements.

These problems are not unique to DISA. Since the concept of DBOF was put forth in February 1991, we have continually reported that DOD has experienced difficulty with accurately reporting on the results of operations for the WCFs.[2] Because the financial reporting problems and other inefficiencies in the operations of the WCFs, the National Defense Authorization Act for Fiscal Year 1997 required DOD to develop an improvement plan by September 30, 1997. In its response, DOD acknowledged that "[s]ystem deficiencies are a major reason for unreliable and unsupported accounting information."[3]

## DOD IG Issues Disclaimer of Opinion on DISA Financial Statements

Because of system deficiencies that resulted in unverifiable account balances and inadequate audit trails, the DOD IG was unable to render an opinion on DISA's financial statements for fiscal year 1997. The DOD IG found that (1) undistributed collections and disbursements were posted to accounts receivable and payable, respectively, and could not be verified and (2) beginning and ending balances for property, plant, and equipment could not be reconciled.

[1] Chief Financial Officer's Financial Management Status Report and Five-Year Plan 1997-2001, Defense Finance and Accounting Service, Fiscal Year 1997.

[2] Air Force Supply Management: Analysis of the Activity Group's Financial Reports, Prices, and Cash Management (GAO/AIMD/NSIAD-98-118, June 8, 1998); Defense Business Operations Fund: Management Issues Challenge Fund Implementation (GAO/AIMD-95-79, March 1, 1995); Defense Business Operations Fund: Improved Pricing Practices and Financial Reports Are Needed to Set Accurate Prices (GAO/AIMD-94-132, June 22, 1994); and Financial Management: Status of the Defense Business Operations Fund (GAO/AIMD-94-80, March 9, 1994).

[3] A Plan to Improve the Management and Performance of the Department of Defense Working Capital Funds, September 1997.

Conceptually, collections and disbursements are considered undistributed when they have been made and reported to the Treasury but not recorded in DOD's accounting records. Therefore, DOD adjusts the (1) accounts receivable balances based on the difference between the collections recorded in the accounting system's general ledger and the collections reported to the Treasury and (2) accounts payable balance based on the difference between the disbursements recorded in the accounting system's general ledger and the disbursements reported to the Treasury.

In accordance with DOD guidance—Financial Management Regulation, Volume 11B, Chapter 54—the DMCs' undistributed collections and disbursements were transferred to accounts receivable and payable and reported in the financial statements at the end of fiscal year 1997. These transfers resulted in accounts receivable and payable being reduced by $98 million and $337 million, respectively. In conducting its audit of DISA's financial statements for fiscal year 1997, the DOD IG was unable to verify the accuracy and reliability of these adjustments. Furthermore, in the case of accounts payable, the reduction resulted in an abnormal debit balance of $50 million. Although DFAS and DISA are aware of the problem, they have not identified the specific cause. Moreover, federal accounting standards do not provide for offsetting undistributed transactions to accounts receivable and payable.

Further, because of system interface problems between IFAS and the Defense Property Accountability System (DPAS), the DOD IG was unable to audit the property, plant, and equipment line item. These problems resulted in incorrect postings to depreciation and fixed asset accounts. In addition, regular periodic reconciliations were not performed to correct the errors. The amount reported for DMC property, plant, and equipment ($198.7 million) in DISA's Statement of Financial Position represents 23 percent of total assets.

Our September 1997 report[4] identified similar problems between IFAS and DPAS. We identified over $100 million in differences between property and accounting records and found that procedures were not adequate to control rejected transactions and ensure that discrepancies were corrected promptly. This situation occurred because the required reconciliations were not performed.

[4]Financial Management: DOD's Approach to Financial Control Over Property Needs Structure (GAO/AIMD-97-150, September 30, 1997).

The inability to accurately account for property, plant, and equipment could affect the accuracy of DMC prices because depreciation is a major cost element included in the prices. For fiscal year 1998, the amount of depreciation included in DMC prices was 14 percent for IBM and 8 percent for UNISYS. Given the myriad of problems discussed above, there is no assurance that the amount for depreciation is accurate. If the accuracy of a major cost element is questionable, the accuracy of the price being charged is questionable.

## Reliable Revenue and Cost Data Essential to Setting Accurate Prices

Our analysis of DISA's fiscal year 1997 financial data disclosed numerous instances in which the revenue and cost for nonmainframe services were not accurately reported. Overall, we identified (1) 11 DMCs that reported revenues without any corresponding cost for 19 C-Goal categories of service and (2) 12 DMCs that reported cost without any related revenue for 20 categories of service. Revenue without corresponding cost totaled approximately $5 million, while cost for which no corresponding revenue was recorded totaled about $3 million. Examples of each condition are as follows.

- Ogden DMC reported revenues with no costs, including approximately $1.5 million in revenue for Direct Customer Support, $169,000 for Network Control, and $58,000 for services provided to a specific customer.
- Montgomery DMC reported no costs for four of the five categories of service with revenues totaling $823,000.
- Chambersburg DMC reported costs with no revenues for four of the eight services, including about $627,000 for Defense Information Integrated Engineering, $96,000 for Information Systems Support, $91,000 for Output Distribution, and $69 for Network and Program Management.

DISA-WESTHEM officials acknowledged that the accounting for DMC revenues and costs has been unreliable. They further stated that DISA has focused much of its attention on the management of the mainframe processing workload and has little overall visibility over the other types of services the DMCs were providing to their customers. These services included computer repair and local area network operations that are not associated with mainframe operations. As part of DISA's DMC consolidations, these services will be offered by the Regional Information Services locations.

DISA has initiated efforts to improve its oversight over C-Goal services. For example, the Resource Management Branch has developed new unit identification codes to reduce the risk of misclassifying revenue and cost

and new budgeting and accounting procedures manuals, including guidance for pricing nonmainframe services. DISA-WESTHEM also appointed a project manager who has begun efforts to standardize categories of services being offered. Standardizing services is an important first step in gaining visibility and oversight of the various services being offered. The outcome of these efforts should improve DISA's ability to develop accurate projections of operating costs and prices and to evaluate operating results.

Additionally, the accurate recording of revenues and costs is important to the successful operations of the Regional Information Services locations which are a part of DISA's overall plan to further consolidate its megacenter operations. According to DISA's consolidation plan, each regional location must be self-sustaining as required by the WCF. Further, an official within the Office of the Under Secretary of Defense (Comptroller) stated that locations operating at a loss will be closed.

## DOD Efforts to Improve Accuracy of Financial Data

The types of problems identified by the DOD IG and discussed in DOD's fiscal year 1997 Federal Managers' Financial Integrity Act (FMFIA) report, and the DFAS Status Report are not unique to DISA. Since the concept of DBOF was put forth in February 1991, we have repeatedly identified weaknesses with the accuracy and reliability of the financial reports prepared on the results of operations. DOD itself has also recognized the inadequacies in financial reports—in the Acting Comptroller's February 2, 1993, letter to the congressional Defense committees; the September 24, 1993, Defense Business Operations Fund improvement plan; and DOD's February 2, 1994, response to our October 1993 letter on concerns we had with the Defense Business Operations Fund improvement plan. Further, DOD's fiscal year 1997 FMFIA report noted deficiencies with WCF accounting and reporting. More specifically, DOD's CFO Status Report notes that IFAS cannot provide financial data that are complete, reliable, consistent, timely, and responsive to the needs of agency management. To resolve these problems, DOD stated that it has undertaken an alternative analysis to determine the most cost effective means of implementing a compliant system. However, DOD has not specified a date for completion of the analysis.

Because of congressional concern over DOD's inability to resolve these long-standing problems, the National Defense Authorization Act for Fiscal Year 1997 directed DOD to prepare a plan to improve the management and operations of the WCFs. Among other things, the act specifically required DOD to address the issue involving financial reporting. As discussed in our

recent report,[5] DOD's September 30, 1997, response clearly articulated the problems hindering accurate financial reporting and discussed the decisions made to resolve the problems. However, the plan does not (1) identify the specific tasks that need to be performed, (2) establish accountability for ensuring that the tasks are completed when more than one DOD organizational entity is involved, and (3) establish milestones for ensuring that the tasks are completed promptly. Our report recommended that DOD develop a detailed implementation plan that (1) identifies the specific actions that need to be taken, (2) establishes milestones, and (3) clearly delineates responsibilities for performing the specific tasks. In his May 14, 1998, response to our report, the Under Secretary of Defense (Comptroller) concurred with the overall findings and recommendations. The Comptroller noted that the Office of the Secretary of Defense Revolving Fund Directorate has established three working groups that will develop specific implementation and execution plans and procedures for financial reporting.

## Conclusions

Accurate and credible financial data are essential for DISA managers to ascertain if realistic prices are being established. Reliable financial information is also necessary to enable the Congress to exercise its oversight responsibilities. Although DOD has acknowledged accounting and reporting problems and developed various improvement plans, the financial reporting problems confronting the WCF today are essentially the same as they were since their inception. Until the accuracy and reliability of the financial reports improve, DISA will continue to be in the untenable position of attempting to manage and fulfill its fiduciary responsibility based on questionable data.

## Agency Comments and Our Evaluation

DOD expressed concern that our findings related to DISA and that the report does not recognize the systemic nature of the deficiencies in DOD. We disagree. The report states that these problems were not unique to DISA and that since the concept of DBOF was put forth in February 1991, we have continually reported on DOD's difficulties in reporting accurately on the results of operations for the working capital funds. Further, the report also recognizes that the responsibility for resolving these problems rests with DOD, not DISA.

In addition, some of the financial reporting weaknesses discussed above are the result of DISA personnel not following procedures in the recording

[5]GAO/AIMD/NSIAD-98-118, June 8, 1998.

of revenue and cost at the DMCs. As noted in our report, the DMCs have experienced difficulty in accurately recording revenues and costs. DISA management needs to ensure that such weaknesses do not continue and contribute to overall weaknesses within DOD's accounting systems.

# Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

**OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE**
**6000 DEFENSE PENTAGON**
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COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE

September 2, 1998

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Dodaro:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report dated August 20, 1998, "DOD INFORMATION SERVICES: Improved Pricing and Financial Management Practices Needed for Business Area," (GAO Code 511639/OSD Case 1637).

See comment 1.

We are non-concurring with four of the eight report recommendations, and questioning the accuracy of the data, the degree of objectivity, and the balance portrayal of the facts supporting them. Comments supporting our views are provided in the enclosures.

We appreciate the opportunity to comment on the draft report. We are most anxious to resolve the differences, as it appears information contained in this report is being used in proposed legislation without DoD having had the opportunity to verify its accuracy. On July 16, 1998, the Secretary of Defense sent a letter to House and Senate committee chairmen in which he stated that the transfer of $222 million of the Defense Information Systems Agency's (DISA's) appropriated funds "would cripple the joint information-based capabilities on which the success and security of U.S. forces depend."

Sincerely,

Arthur L. Money
Senior Civilian Official

Enclosures:
1. Overall Comments on Draft Report
2. Comments on Recommendations
3. Technical Comments

GAO DRAFT REPORT - DATED AUGUST 18, 1998
(GAO CODE 511639) OSD CASE 1637

"DOD INFORMATION SERVICES: IMPROVED PRICING AND FINANCIAL MANAGEMENT PRACTICES NEEDED FOR BUSINESS AREA"

OVERALL COMMENTS

See comment 1.

In general, the Department non-concurs with the report's recommendations because they are unnecessary since they are already implemented. Also, some recommendations are inappropriate because the analyses are based on misunderstandings. As a consequence, the report misstates, misinterprets and misrepresents much of what has been done by the Defense Information Systems Agency (DISA) to control costs and manage funds, both Defense Working Capital Fund (DWCF) and appropriated, within the guidance provided by both the Department of Defense (DOD) and the Congress. Further, the report does not adequately acknowledge past and current actions DISA has taken to address the very conditions the GAO noted. Since Fiscal Year 1993, DISA has reduced its Defense megacenter rates by 59.3 percent and since Fiscal Year 1997, DISA has reduced its Communications Information Service Activity (CISA) Continental United States (CONUS) transmission rates by 25 percent and overall worldwide rates by 8 percent. The DISA was able to accomplish these reductions while undergoing significant transitions and accommodating significant increases in workload without adversely impacting customer service.

The following is a summary of management comments on the GAO's findings.

**DEFENSE MEGACENTERS COSTS AND WORKLOAD PROJECTIONS WARRANT CONTINUED REVIEW**

Cost analyses. The GAO criticizes DISA for not analyzing the causes of cost differences among the Defense megacenters (DMCs) and states that further analyses is needed to identify inefficient operations and make fundamental improvements in how the DMCs conduct business. GAO's observations are faulty because DISA has analyzed cost differences. By 1996, DISA had studied the cost versus performance characteristics of the 16 DMCs thoroughly and recognized that, as in industry, the larger centers were the more efficient ones. DISA used the results of

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this and other analyses to plan the ongoing consolidation that will further reduce the number of DMCs. One of the guiding principles of the consolidation is to standardize and reduce overall costs and to improve service. DISA does not believe that a detailed study of the causes of cost differences among DMCs in 1998 would be relevant because their current operations are changing dramatically during the consolidation. By the time the consolidation is completed there will be more standardization in DMC operations and costs. Further, from an operational perspective, analyses of cost differences have been conducted and provided to DISA's management as well as DOD officials as part of a continual effort. The GAO's comments regarding the cost variances among the DMCs also imply that DISA has been operating in an inefficient manner. In fact, DMC rates have been reduced by 59.3 percent since Fiscal Year 1993, while handling increasing workload and maintaining a positive operating result and cash position.

Workload estimates. The GAO addresses workload variances and attributes these variances to insufficient cooperative efforts between DISA and its customers in projecting workload. This is a faulty conclusion. As the GAO report points out, workload projections are made two years in advance of when rates are set. The workload projections GAO criticizes were made during a period when the consolidation of the DMCs and the transition from Service networks and the prior DOD network were occurring, and at the same time as a major drawdown in the DOD force structure was taking place. The GAO is criticizing DISA for not planning when DISA's customers, the primary source of its workload, lacked the data and experience necessary to make workload estimates during this changing environment. As often occurs in an unstable environment, plans change based on a rapidly changing situation. On the other hand, the overall variation of 13 percent referred to by GAO is well within what an information technology business would expect in a 2 year projection. As the situation stabilizes, consolidations are completed and both DISA and its customers obtain valid historical data on which to base workload projections, estimates will improve. However, the dynamics of the military missions and increased application of data processing and telecommunications technologies could continue to make absolutely precise estimates a difficult objective.

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**TELECOMMUNICATIONS PRICES DO NOT REFLECT THE FULL COST OF OPERATIONS**

Costs not included in prices. The GAO report states that the CISA did not include $137 million of costs in its rates. This is not true. All costs relative to the telecommunications services have been considered in developing rates. These costs are recovered over multiple fiscal years which is done in accordance with DOD regulations.

DISA appropriations of $231 million supporting DWCF operations. The GAO identified a number of activities paid for with appropriated funds that it believes should be part of DWCF. Funding all the activities cited in the GAO report through DWCF is not appropriate. The DISA's mission is to "plan, engineer, develop, test, manage programs, acquire and implement, operate and maintain information systems for C4I and mission support under all conditions of peace and war." This is clearly broader than the DWCF missions. Missions such as INFOSEC, Engineering Standards, and Common Operating Environment (COE) involve developing capabilities for all aspects of computing and telecommunications. These efforts benefit all DOD information technology programs, appropriated and DWCF. Allocating funds for programs such as INFOSEC, Engineering Standards, or COE directly to end users would diminish DISA's control relative to Office of the Secretary of Defense mandated programs and functions. It would also be inappropriate since DWCF products and services are not the only or principle beneficiaries of these programs. Further, the level of resources applied to these areas is not an end user decision that should be made on the basis of price and local prioritization needs, but a DOD level decision that must be based on the overall needs of the Department.

New product lines. The GAO report addresses new product lines that GAO believes should be in the DWCF. While funding may ultimately be done through DWCF, a planning and review process needs to take place first. When new products are introduced, DOD funds the initial development through appropriated funds, and then a decision is made as to whether the capabilities or assets are to be maintained through appropriated funds or be transitioned to the DWCF. The decisions involved in what is DWCF or appropriated funded are made in concert with (1) the DOD Comptroller who reviews and approves DISA's budget and includes

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our input into the DOD budget, and (2) the Congress who reviews, approves, and often directs specific actions. The decisions are based on whose mission the requirement supports and whether the production of the end products lends itself to a business type, buyer-seller relationship. The Secretary of Defense, by law, is given discretion in determining the appropriate funding mechanism.

WESTHEM appropriated funds. GAO states that DISA's Western Hemisphere (WESTHEM), which is responsible for managing DMC operations, receives appropriated funds for costs that are not included in the DWCF. Services provided by WESTHEM from appropriated funds do not relate to its DMC mission, but to other DISA functions. However, in order to avoid any future misunderstanding, DISA has taken action to realign non-DMC activities from WESTHEM to another DISA organization.

**DISA NOT REIMBURSED FOR SERVICES**

The GAO discusses DISA's large accounts receivable situation. This is an issue DISA has been working both internal to DOD regarding inter DOD billing and externally with the Office of Management and Budget, DOD, and the Defense Finance and Accounting Service, addressing inter-governmental billing. The DISA has made significant progress in establishing arrangements regarding streamlining collection processes, obtaining quicker reimbursements through more aggressive follow-up and through use of electronic payment that GAO has not recognized. The DISA expects to see the situation improve dramatically based on these actions.

**EFFECTIVE MANAGEMENT REQUIRES ACCURATE FINANCIAL DATA**

The GAO is critical of DISA's financial reporting. But, as GAO itself points out, the lack of accurate accounting data is a DOD wide problem, and the DOD Inspector General Report on DISA DWCF financial statements was disclaimed specifically because of the deficiencies in the DOD accounting systems that are not in DISA's control. Yet the GAO report attributes the findings to DISA not recognizing the DOD systemic nature of the deficiency addressed.

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**4**

**CONCLUSION**

While the GAO makes a number of "business" related references throughout its report; it in essence is criticizing DISA for following good business practices and DOD policy. In fact, the GAO review utilizes as one of its references a study commissioned by DISA to look at its business practices. While GAO cites statements from the study that support its position, GAO ignores statements regarding the proper and wise things that DISA is doing from a business perspective. The fact that DISA commissioned this study is in itself indicative that DISA is working to help ensure that the best business practices are used. The DISA is managing its DWCF and appropriated funded activities in accordance with law and regulation and in a manner to achieve efficiencies for the DOD. In summary, GAO's report does not fairly portray DISA's efforts to improve cost management and could do harm to the Agency's ability to implement future cost savings and improve and expand customer service.

**Enclosure 1**
**5**

GAO DRAFT REPORT - DATED AUGUST 18, 1998
(GAO CODE 511639) OSD CASE 1637

"DOD INFORMATION SERVICES: IMPROVED PRICING AND FINANCIAL MANAGEMENT PRACTICES NEEDED FOR BUSINESS AREA"

RECOMMENDATIONS

See comment 1.
Now on page 28.

**RECOMMENDATION 1**: The GAO recommended that the Director of the Defense Information Systems Agency (DISA) as part of the consolidation effort, analyze the cost difference at the Defense megacenters (DNCs) and identify improvements needed in how they conduct business. (p. 33/GAO Draft Report)

**DOD RESPONSE**: Non-concur. This recommendation is unnecessary because the Director, DISA has analyzed cost differences. By 1996, DISA had studied the cost versus performance characteristics of the 16 DMCs thoroughly and recognized that, as in industry, the larger centers were the more efficient ones. DISA used the results of this and other analyses to plan the ongoing consolidation. One of the guiding principles of the consolidation is to standardize and reduce overall costs and to improve service. DISA does not believe that a detailed study of the causes of cost differences among DMCs in 1998 would be relevant because their current operations are changing dramatically during the consolidation. By the time the consolidation is completed there will be more standardization in DMC operations and costs. Further, from an operational perspective, analyses of cost differences have been conducted and provided to DISA's management as part of a continual effort. DISA's management uses monthly Defense Working Capital Fund (DWCF) execution reviews as a forum to discuss cost and revenue issues. Quarterly execution reviews with the office of the DOD Comptroller are also held to keep them informed about trends in operating results and DWCF activity financial health. The GAO's comments regarding the cost variances among the megacenters imply that DISA has been operating in an inefficient manner; thereby, not maintaining its fiduciary responsibility. In fact, megacenter rates have been reduced by 59.3 percent since Fiscal Year 1993, while handling increasing workload and maintaining a positive operating result and cash position.

Enclosure 2
1

Now on page 28.

**RECOMMENDATION 2**: The GAO recommended that the Director of DISA compare forecasted workload estimates to actual work received and consider these trends in developing the workload and prices to charge customers for services provided. (p. 34/GAO Draft Report)

See comment 1.

**DOD RESPONSE**: Non-concur. This recommendation is unnecessary because (1) it is the customers' responsibility to develop workload estimates and (2) DISA already works with its customers to refine workload projections that are used in charging customers for services provided. Three points should be considered. As noted in the report, the estimates referred to by the GAO were made 2 years in advance of actual execution. At the time these workload estimates were made, DISA was still in the process of consolidating 71 centers into 16 locations. In fact, some decisions about migrations were not finalized. Also at the time workload estimates were made for Fiscal Year 1997, workload collection systems were not running on many of the systems DISA inherited as part of BRAC 1993. It should also be noted that, during the year of execution, the DISA customers determine the amount of processing time required. Thus, regardless of the quality of estimates made 2 years earlier, customers will change workload requirements to meet their current situation.

Now on page 28.

**RECOMMENDATION 3**: The GAO recommended that the Under Secretary of Defense (Comptroller) (USDC), as part of the prices setting process, ensure the workload estimates in DISA's and the customer's budget are in agreement. (p. 34/GAO Draft Report)

**DOD RESPONSE:** Concur. Following a study of DWCF activities in 1997, in a September 1997 report to Congress the DOD stated that it would implement such a practice.

Now on page 37.

**RECOMMENDATION 4**: The GAO recommended that the Director of DISA ensure that transition costs and revenues are considered within the computation of telecommunications prices in accordance with the criteria set forth in DOD's Financial Management Regulations. (p. 48/GAO Draft Report)

See comment 1.

**DOD RESPONSE**: Non-concur. This recommendation is unnecessary because DISA has addressed transition-related costs and revenues in price computations in accordance with DOD guidance.

**Enclosure 2**
**2**

**RECOMMENDATION 5**: The GAO recommended that the Director of DISA as part of DISA's Fiscal Year 2000 budget, identify (1) all appropriations used in support of WCF activities, and (2) the specific reason(s) as to why appropriated funds are being used to support the activities of the Working Capital Fund. (p. 48/GAO Draft Report)

Now on page 38.

**DOD RESPONSE**: Non-concur. This recommendation is not necessary. The Secretary of Defense, in consonance with the guidance and authorities provided in Title 10, Section 2208, establishes regulations governing use of appropriated and DWCF funds. DoD has not observed any instances where the DISA has not operated within the framework established by law and regulation governing the use of appropriated and DWCF funds.

See comment 1.

**RECOMMENDATION 6**: The GAO recommended that the Under Secretary of Defense (Comptroller) direct DoD activities to follow existing DoD Financial Management Regulations by providing funding documents to DISA for the amount of services being requested prior to DISA beginning work. (p. 56/GAO Draft Report)

Now on page 44.

**DOD RESPONSE**: Concur. DoD's policy requires DOD activities to provide funding documents for the amount of services requested prior to beginning work. Further, the DISA has been working with its customers and the Office of the Under Secretary of Defense, Comptroller (OUSD/C) to ensure this policy is followed.

**RECOMMENDATION 7**: The GAO recommended that the Under Secretary of Defense (Comptroller) direct DoD activities to reimburse DISA for the full amount of services provided. (p. 57/GAO Draft Report)

Now on page 44.

**DOD RESPONSE**: Concur. The DISA has been working with its customers, the OUSD/C, the Defense Finance and Accounting System (DFAS), and the Office of Management and Budget to establish mechanisms for collecting bills and ensuring they are paid. Further, OUSD/C has developed a new procedure to ensure service providers will not have losses based on failure to pay bills. We anticipate that all service costs will be recovered in the future.

**RECOMMENDATION 8**: The GAO recommended that the Under Secretary of Defense (Comptroller) direct DISA to record amounts it is owed for services provided in accordance with federal accounting standards. (p. 57/GAO Draft Report)

Now on page 44.

**Enclosure 2**
**3**

**DOD RESPONSE**: Concur in principle. This will require changes to the accounting system. Therefore, the required action is outside of DISA's direct control. The DISA will raise the need for system changes with DFAS.

Enclosure 2
4

The following is GAO's comment on the Department of Defense's letter dated September 2, 1998.

## GAO Comment

1. Discussed in "Agency Comments and Our Evaluation" sections of chapters 2 through 5.

# Fiscal Year 1998 Appropriated Funds Supporting Working Capital Fund Activities

Dollars in thousands

| DISA PROGRAM | Appropriated amounts for WCF activities with existing customer base | Appropriated amounts supporting WCF related activities |
|---|---|---|
| **Operations & Maintenance (IT Budget)** | | |
| The Defense Message System is replacing the legacy messaging service, AUTODIN. AUTODIN costs are recovered by the working capital fund. | $34,110 | $34,110 |
| The information security program was established to secure DOD networks including those funded by the WCF from intrusion. DISA estimates that 25 percent of its $86.5 million annual appropriated amount relates to systems under the working capital fund. | $21,635 | $21,635 |
| The Defense Information System Network includes the base, long-haul, and deployed blocks. DISA is responsible for (1) operational management, (2) system design, (3) performance standards, (4) interoperable interface standards, (5) connection requirements, (6) approval for DISN procurement, (7) test and evaluation, (8) billings through the WCF, and (9) security measures. | $60,077 | $60,077 |
| The DISA Continuity of Operations and Test Facility mission includes providing continuity of operations support to the megacenters and testing Defense Information Infrastructure components such as DISN. | $16,978 | $16,978 |
| Engineering Standards encompasses exchange standards necessary for vital command and control functions, including voice and data communication systems that are components of the WCF. | Portion pertaining to megacenters and DISN unknown | $18,847 |
| IT core computing includes programs that will deliver and implement Defense Information Infrastructure building block components. Specific projects include IT core DMC engineering. DMCs operate under the WCF. | Portion pertaining to megacenters unknown | $28,482 |
| **Subtotal** | **$132,800** | **$180,129** |
| **Procurement** | | |
| Mobile Satellite System Technologies is an emerging technology with the capability to support low rate voice and data services. Current voice and data services are funded through the working capital fund. | $9,769 | $9,769 |
| The information security program was established to secure DOD networks including those funded by the WCF from intrusion. Budget justification generally relate fund usage to WCF components. | $19,151 | $19,151 |
| Continuity of Operations funds are to establish a state of the art lab at DISA's Continuity of Operations and Test Facility. This lab provides integrated services to the DMCs. DMCs are funded by the WCF. | $4,534 | $4,534 |
| The Defense Message System is replacing the legacy messaging service AUTODIN. AUTODIN costs are recovered by the WCF. | $43,485 | $43,485 |
| **Subtotal** | **$76,939** | **$76,939** |
| **Research, Development, Test and Evaluation** | | |
| Interoperability provides test and evaluation of major DOD programs, such as DMS and DISN, by certifying that critical requirements are supported by interoperable functionalities. | $5,942 | $5,942 |
| Defense Information Infrastructure engineering and integration services and tools support key DISA programs and initiatives such as DMS, DISN, ATM, and information security. | $1,388 | $1,388 |

(continued)

Dollars in thousands

| DISA PROGRAM | Appropriated amounts for WCF activities with existing customer base | Appropriated amounts supporting WCF related activities |
|---|---|---|
| Long-haul communications program funds system engineering and test and evaluation for DISN. | $13,693 | $13,693 |
| **Subtotal** | **$21,023** | **$21,023** |
| **Total** | **$230,762** | **$278,091** |

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